

October 2008

VALUE PROPOSITION FOR IBM SOFTWARE PREMIUM SUPPORT SERVICES: QUANTIFYING THE COST/BENEFIT CASE

Why Premium Support?

What is the value of an IBM Premium Support contract?

The answer depends, in large part, on another question: what is the value of IBM software products to organizations that employ them?

One of the companies consulted for this report had invested at least \$300 million in IBM middleware. More than 200 major applications, and many smaller ones, were built around them. More than 700 developers wrote for them. If architects, administrators, technicians, support personnel, and others were included, more than 1,200 members of the company's IT staff were involved with these applications.

Although actual numbers vary, many other organizations have made comparable commitments to Information Management (IM), Lotus, Rational, Tivoli, or WebSphere software products, or to combinations of these.

These products are deeply embedded into IT infrastructures, application portfolios, and skill sets. The effectiveness with which they are used, the productivity of the staff who work with them, and the stability, reliability, and security of the solutions built around them have far-reaching implications not only for IT organizations, but also for the businesses they support.

It is from this perspective that the IBM Premium Support program should be viewed.

Among customers participating in this program, its benefits are clearly understood. At the strategic level, relationships may be developed with IBM that enable organizations to better understand the future evolution of the company's software offerings, and to more effectively exploit the potential of these. Insights and experiences may be shared that increase efficiency, accelerate projects, and avoid pitfalls.

The Premium Support program also enables IBM support resources to be better aligned to meet organization-specific requirements. Major reductions may be realized in the frequency and severity of software problems, along with improvements in the speed with which these are resolved. Productivity of IT staff may be increased, skill bases may be enhanced, and risk exposure may be materially reduced.

Many organizations, however, find it difficult to quantify the value of such benefits. This report is designed to assist them.

The report is based on interviews with in-house IT and IBM Premium Support personnel as well as on detailed documentation of Premium Support activities, analyses of Problem Management Report (PMR) records, and other input from 41 large companies and government agencies participating in the program.

Costs and Returns

Input from program participants was used to construct 15 composite profile installations – three for each brand. Annual contract costs as well as returns – meaning the monetary value of benefits realized through participation in the program – were then calculated for each installation.

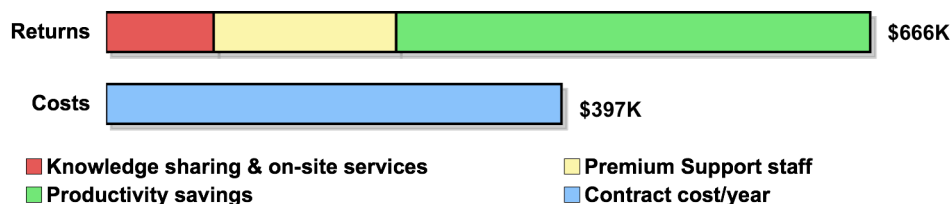
Overall annual returns ranged from 1.1 to 2.7 times costs, and averaged 1.7 times costs – a higher rate of return than is realized by most IT investments.

There were three main sets of returns:

1. **Productivity savings** realized by customer IT staff through improved support procedures; improvements in PMR metrics such as reductions in PMR frequency, severity, and time to resolution; and other effects.
2. **Costs of IBM Premium Support staff** handling support-related tasks that customers would otherwise have had to deal with directly.
3. **Knowledge transfer and on-site services** supplied under Premium Support contracts for which organizations would otherwise have had to pay separately. Costs include the value of knowledge sharing activities and program-specific events made available at no additional charge to Premium Support customers.

The overall distribution of these returns relative to contract costs is illustrated in figure 1.

Figure 1
Premium Support Program Costs and Returns: Averages for All Profile Installations



The basis of these calculations, along with details of methodology, descriptions of profile installations, and breakdowns of costs and returns by brands and individual installations, may be found in the Detailed Data section of this report.

Costs and content of Premium Support contracts for profile installations were developed using data supplied, in some cases, by IBM. Costs used in calculations, however, are ITG estimates, and may not reflect actual IBM pricing for individual customers.

Productivity Savings

Problems and Productivity

There was general agreement among customers that problems leading to the initiation of PMR procedures affected the productivity of internal IT staff such as administrators and developers.

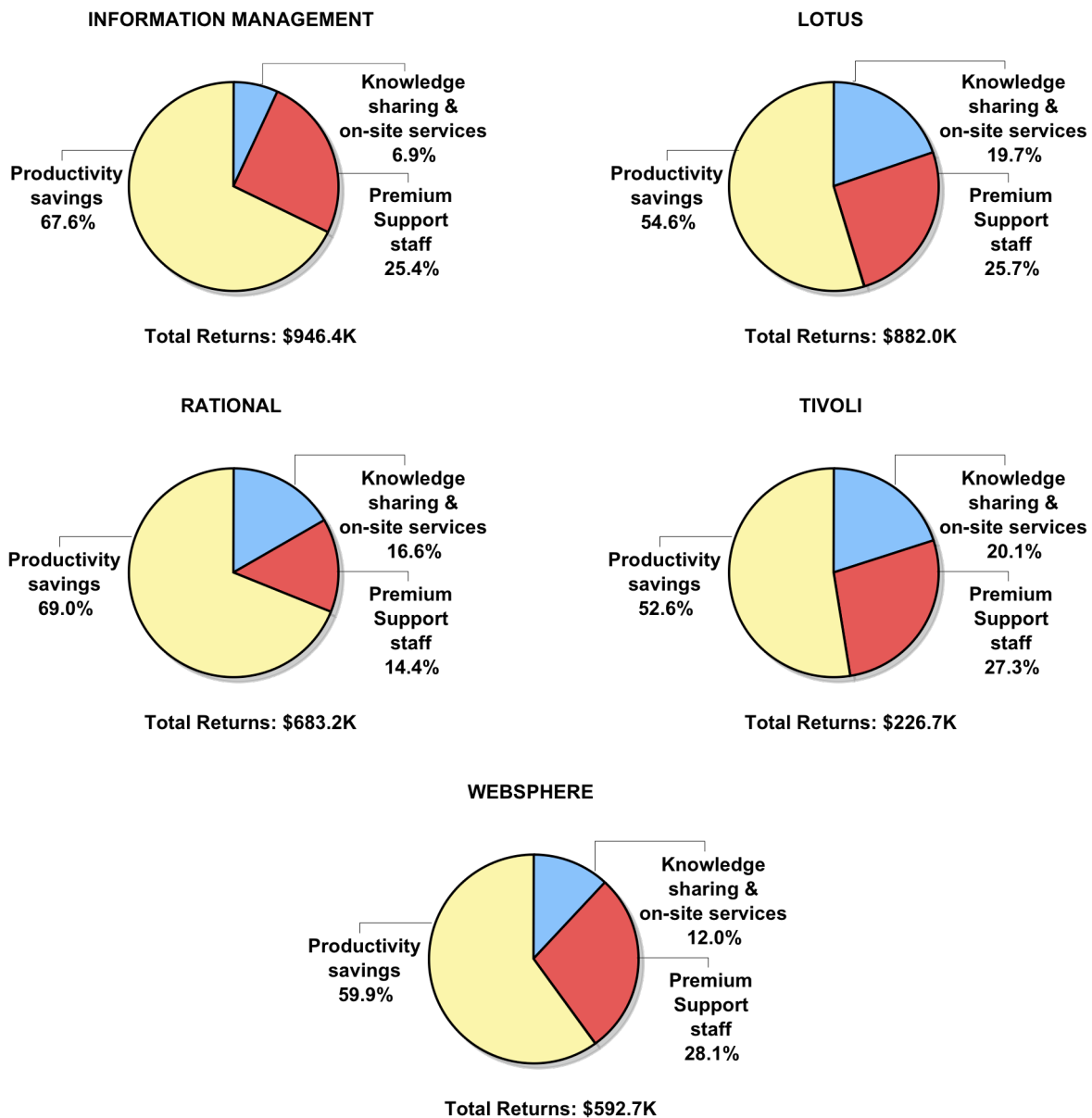
Analysis of PMR records shows that individual PMR incidents typically resulted in direct productivity losses of between 0.5 and 15 full-time equivalent (FTE) days for administrators, developers, or other specialists.

There were also, however, broader “cascading” effects. Disruptions might affect other activities within IT organizations, affecting dozens or even hundreds of individuals. Team-based development activities were particularly vulnerable to such effects.

Any significant improvement in PMR metrics thus yielded material benefits. If the amount of time that these spent dealing with problems was reduced, greater effort could be channeled into activities that contributed more substantially to the realization of solution functionality and efficiency.

Although there were some variations, internal IT staff productivity savings represented the largest single source of returns for all brands. Figure 2 shows average returns for profile installations for each brand.

**Figure 2
Premium Support Program Returns: Averages by Brand**



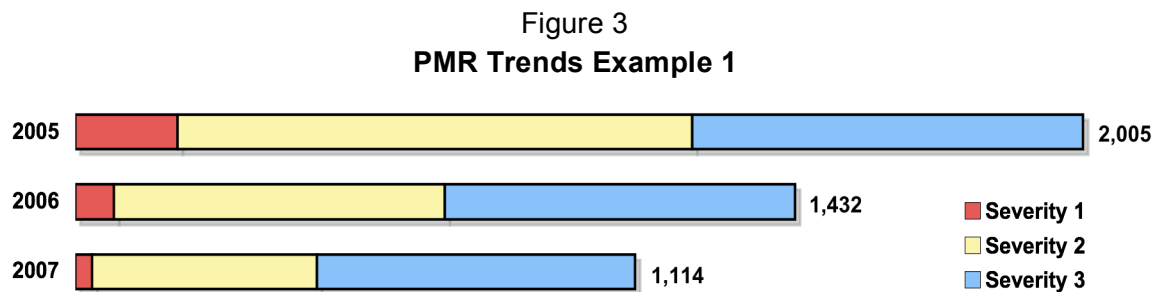
All of the Premium Support customers consulted for this report experienced declines in the number and severity of PMRs, as well as reductions in time to relief (meaning the time required for IBM to supply a solution) and time to resolution (including time for the customer to implement and test the solution) for PMRs after joining the program.

These trends are due to multiple factors. Intervention by Premium Support program personnel meant that PMRs were typically handled more rapidly and effectively. Premium Support activities, however, were proactive as well as reactive. Knowledge transfer, on-site, and other services provided through the program enabled organizations to foresee and prevent problems, and to realize process improvements that reduced the potential for errors.

Multi-year Trends

Premium Support customers normally experienced significant improvements in PMR metrics during their first contract year. Moreover, these trends were often sustained over multi-year periods.

Figure 3 shows an example of this effect for one Lotus Premium Support customer over three years.



In this case, declines were steepest for Severity 1 and 2 PMRs, which dropped 6.2 and 2.3 times respectively. It had been decided to focus on these, rather than on more common but less disruptive Severity 3 incidents. PMR records from other Premium Support customers showed similar patterns.

Moreover, there are indications that these trends may be sustained over long periods. Figures 4 and 5 show numbers of PMRs and time to resolution for another Lotus customer over a five-year period.

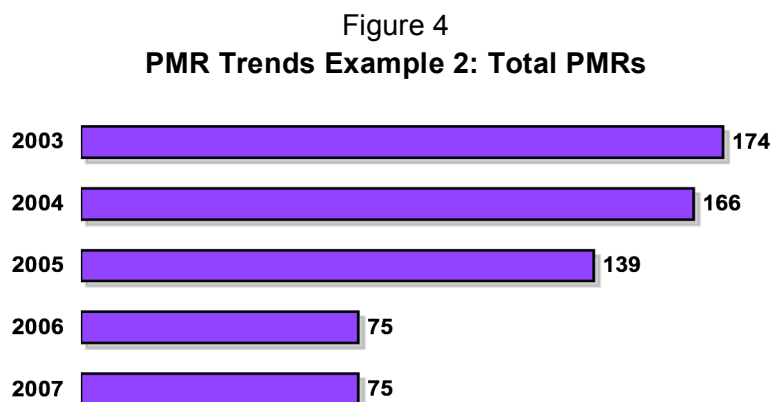
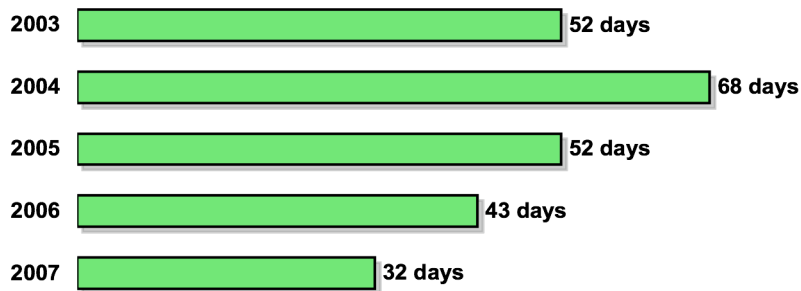


Figure 5
PMR Trends Example 2: Time to Resolution



In this case, the trend is not unilinear – there is a jump in average time to resolution during 2004, due to a small number of PMRs that required exceptionally long periods to resolve – but the overall picture is consistent. During 2007, although the number of PMRs remained the same as for 2006, average time to resolution declined more than 25 percent.

A few Premium Support customers reported spikes in PMR activity after joining program. Typically, this occurred during major upgrade or migration projects. Among Lotus customers, however, all of the organizations for which historical PMR data could be obtained showed significant, sustained declines in all PMR indicators over multi-year periods.

Levels of PMR activity experienced by IM, Rational, Tivoli, and WebSphere customers were reported to be lower than for overall IBM customer averages. Reductions in numbers of PMRs, average severity, and time to resolution were also cited – in one case, the overall number of PMRs was said to have dropped 23 percent within six months.

There is no reason to expect that multi-year PMR trends for these brands would not be similar to those among Lotus Premium Support customers.

A number of customers noted that Premium Support coverage had proved particularly valuable during major technology transitions. These included organizations that had conducted major upgrades to new versions of IM, Lotus, Rational, Tivoli, and WebSphere software, as well as first-time deployments of Rational development tools and Rational Unified Process, and new Lotus applications.

Risk Avoidance

A further benefit of Premium Support coverage emerged from user experiences – reduced risk exposure.

Many of the problems documented in PMR reports have the potential to cause outages, performance bottlenecks, data loss or corruption, and other incidents whose impacts could range from inconvenient to disastrous. Improvements in PMR metrics translated into less risk.

Other mechanisms reinforced this effect. Premium Support customers benefited, for example, from earlier and more comprehensive notifications about potential problems than other users of IBM software products. Critical Situation Flash Alerts, access to draft Technotes, and actions by Premium Support Managers (PSMs) and Premium Support Analysts (PSAs) to ensure that customers were informed in a timely manner about potential difficulties further reduced exposure.

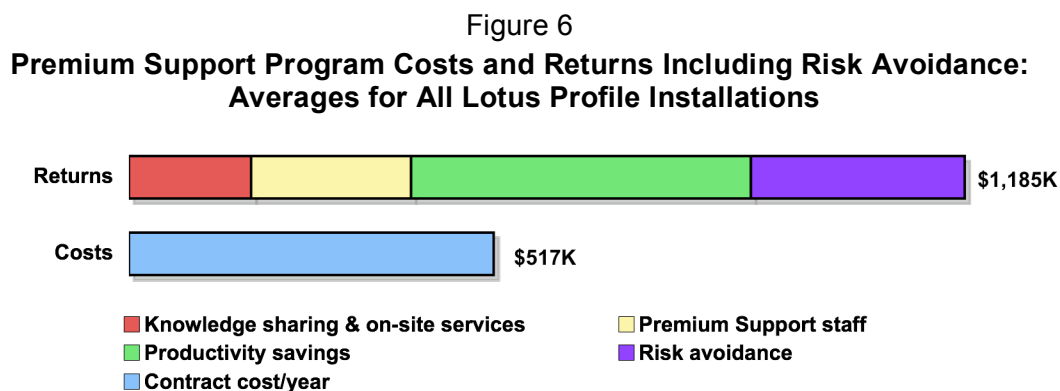
One key strength of program coverage was reported to be that organizations are routinely alerted about problems that have been encountered by other Premium Support customers. Another was that PSMs and PSAs filtered incoming information, issued alerts, and made recommendations for corrective action for customer-specific environments.

The bottom-line implications of risk avoidance may be illustrated for the three Lotus profile installations. In these, global messaging networks operated on a 24x365 basis. Even brief outages could reduce end-user productivity. Protracted outages could cause serious business damage. The effects of both were magnified if outages occurred at times of peak usage.

Analysis of PMR records of Lotus Premium Support customers conducted for this report made it possible to quantify the extent of risk avoidance provided by the program.

For the three Lotus profile installations, avoidance of outages resulted in annual end-user productivity gains of between \$107,000 and \$682,000.

If risk avoidance gains are added to knowledge transfer and on-site services, Premium Support staff, and productivity savings, average returns are as shown in figure 6.



These estimates should be regarded as conservative. Outages may result not only in end-user productivity losses, but also in organizational disruption, delays in the delivery of time-sensitive messages, loss or corruption of message records, and other effects. The consequences of these may include business damage and exposure to legal and regulatory actions.

It may be expected that Premium Support customers for IM, Rational, Tivoli, and WebSphere products would enjoy similar risk avoidance benefits.

Conclusions: Relationships

Although this report deals with quantifiable sources of value, customer responses made clear that other Premium Support benefits were equally if not more important.

The Premium Support program is, as customers repeatedly emphasized, about relationships. The closeness of relationships with Premium Support personnel was one of the program’s primary sources of value. PSMs and PSAs were commonly referred to as “part of our staff...an extension of our staff...our representatives in dealing with IBM” and similar characterizations.

PSMs, PSAs, or both were typically in contact with customers at least once a week, spent a great deal of time on-site, and interfaced with IT staff through a variety of events and activities. In some cases, Premium Support staff was on-site on a full-time basis.

One result was that PSMs and PSAs became highly familiar with customer environments and IT organizations, and with the technical as well as business challenges faced by the latter. This was repeatedly cited by customers as a key benefit of participating in the Premium Support program.

Interviews with PSMs and PSAs confirmed that they knew a great deal about their customers, and were able to apply this knowledge to meet customer needs.

Relationships were reinforced by the fact that PSMs and PSAs had often been working with the same customers for multi-year periods. Relationships dating back three to five years were common, and one PSA had been assigned full-time to the same customer for more than nine years.

Any organization that has invested heavily in the software of any vendor inevitably develops a close relationship with that vendor. At its best, that relationship looks like the IBM Premium Support program.

Additional Information

This ITG Executive Summary is based upon results and methodology contained in a Management Brief released by the International Technology Group.

For copies of this Management Brief, please email requests to info-itg@pacbell.net.



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